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AER - Q2 2012 AerCap Holdings N.V. Earnings Conference Call

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## OVERVIEW:

AER reported 2Q12 total revenues of \$253m and reported net income of \$29.6m or \$0.21 per share.



## CORPORATE PARTICIPANTS

**Peter Wortel** *AerCap Holdings N.V. - VP IR*

**Aengus Kelly** *AerCap Holdings N.V. - CEO*

**Keith Helming** *AerCap Holdings N.V. - CFO*

## CONFERENCE CALL PARTICIPANTS

**John Godyn** *Morgan Stanley - Analyst*

**Michael Linenberg** *Deutsche Bank - Analyst*

**Gary Liebowitz** *Wells Fargo Securities - Analyst*

**Arren Cyganovich** *Evercore Partners - Analyst*

**David Fintzen** *Barclays - Analyst*

**Scott Valentin** *FBR Capital Markets - Analyst*

**Ryan Zacharia** *Jacobs Asset Management - Analyst*

**Glenn Engel** *BofA Merrill Lynch - Analyst*

**Helene Becker** *Dahlman Rose & Co. - Analyst*

## PRESENTATION

### Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the AerCap Holdings second quarter 2012 financial results conference call.

(Operator Instructions). This call is being webcast and an audio version of the call will be available on the Company's website. The call is also being recorded for replay purposes.

I'll now hand the conference call over to Peter Wortel, Head of Investor Relations. Please go ahead, sir.

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**Peter Wortel** - *AerCap Holdings N.V. - VP IR*

Thank you and good day, everyone. Welcome to our 2012 second quarter results conference call. With me today are Aengus Kelly, AerCap's CEO, and Keith Helming, AerCap's CFO.

In today's call we will discuss our second quarter earnings, but before we begin, I will read you the text concerning forward-looking statements.

Some statements made during this conference call that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

In addition, this conference call contains time-sensitive information that reflects management's judgment only as of the date of the live call. AerCap does not undertake any ongoing obligation, other than as imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call.

Further information concerning issues that could materially affect the performance related to forward-looking statements can be found in AerCap's earnings release dated August 7, 2012. A copy of the earnings release and conference call presentation is available on our website at [aercap.com](http://aercap.com).



This call is open to the public and is being webcast simultaneously at [aercap.com](http://aercap.com) and will be archived for replay.

I'll now turn the call over to Aengus Kelly.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Thank you, Peter. Good morning to everyone in the US and good afternoon to those of you in the Middle East and Europe. Thank you for joining us today for our second quarter 2012 earnings call.

During the second quarter, AerCap generated an adjusted net income of \$59 million or \$0.43 per share. On an unadjusted basis, included non-cash charges related to debt prepayment costs, mark to market of interest rate caps, and share-based compensation, we generated a healthy net profit of \$30 million or \$0.21 per share.

In line with our commitment to enhance shareholder value, we executed several key transactions during the quarter.

Firstly, we have increased the size of our current share buyback program from \$130 million to \$200 million. Given the current trading price of the stock, this is a very effective means of increasing shareholder value, and during the second quarter 2012 we bought back 5.6 million shares.

Secondly, profitable portfolio growth is, of course, a priority. All of our aircraft acquisitions must be accretive to shareholder value, not dilutive. To ensure that these targets are achieved requires patience and discipline. Our recent deal for five of the world's most popular wide-body aircraft, the A330-300, represents such a transaction.

All of these aircraft will be leased to Singapore Airlines. AerCap will lease four of these aircraft and AerDragon, our Chinese joint venture, will lease one of the aircraft to Singapore Airlines.

Thirdly, as you are aware, we were rated investment grade during the first half of 2012 by Standard & Poor's and Fitch. We are very pleased that in the second quarter we were able to use our investment-grade rating to close a ground-breaking transaction for the aircraft leasing industry by being the first lessor to issue an unsecured deal, without either having to give or already having in place an unencumbered asset test or loan-to-value test across the portfolio.

During the quarter, we also signed new lease agreements for 20 aircraft, seven of which will be delivered to China Southern, four are going to Singapore Airlines, and three were delivered to American Airlines as part of our purchase/lease-back deal.

Most of this activity was in the emerging markets, which is primarily driven by passenger growth in Asia. These placements in the second quarter now mean that all of AerCap's 58 new aircraft that we are scheduled to take delivery of through 2016, including our NEOs, are placed and under contract, not letter of intent or memorandum of understanding.

Actions such as these, along with our robust liquidity profile, enable us to consistently deliver industry-leading margins. Our net interest margin or net spread was \$173 million in the second quarter.

The value of our total owned assets was \$9.3 billion at June 30, 2012, a slight decrease compared to 2011, mainly due to the sale of Aero Turbine.

We are committed to acquiring \$1.1 billion of assets in 2012, of which \$518 million was purchased in the first half.

Turning to the aviation market in general, we still see good demand and firming lease rates for modern technology equipment such as the 320, 737, and 330 families of aircraft, which account for over 90% of AerCap's portfolio.

This demand is driven primarily by three factors -- firstly, emerging market growth; secondly, replacement of older fleets in the United States and Europe; and three, the increasing demand for operating leases.



Furthermore, the combination of these three factors, along with our best-in-class platform, modern technology portfolio, and diversified customer base, with over 75% of our revenue coming from outside the euro zone, have driven our receivable balances to all-time lows.

Looking forward, with over \$2.3 billion of equity, no large PDP obligation and the enhanced funding capabilities that the investment-grade ratings from Standard & Poor's and Fitch bring, we expect to continue to execute on transactions such as the 330 deal and the share buyback program that will increase shareholder value.

While macro forces continue to be unpredictable, passenger numbers and the aviation industry in general continue to grow, particularly in the emerging markets. Supported by a strong balance sheet and an excellent platform, AerCap has the proven ability and resources to rapidly respond to market opportunities.

On that note, I will hand you over to Keith to take you through the financials before we open up the Q&A session.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Thanks, Gus. Good morning, everyone. I'll start on page four of the presentation.

Our reported net income for second quarter 2012 was \$29.6 million. During the second quarter 2012 we incurred non-recurring, after-tax, charges of \$20.9 million relating to the prepayment of our highest-cost secured debt. Excluding these charges and the mark-to-market on interest rate caps and the cost of share-based compensation, adjusted net income was \$59.2 million.

For the first half of 2012, adjusted net income was \$128.3 million.

On page five, reported earnings per share was \$0.21 in the second quarter 2012. Adjusted earnings per share was \$0.43 during the same period. The average shares outstanding during the second quarter 2012 was 138.7 million.

Page six, revenues -- total revenue in second quarter 2012 was \$253 million, down from \$277 million in the second quarter 2011. The decrease was driven primarily by reductions in maintenance rents and the net gain on aircraft sales.

Page seven, net interest margins -- our net spread was \$173 million in the second quarter 2012. The annualized margin as a percent of the average lease assets was 8.67%.

Page eight, sales -- the impact from sales for the second quarter 2012 was a gain of \$700,000. During the second quarter, we sold one A330 aircraft, one A320, and one Boeing 757 aircraft. The number of aircraft we sell in any given period may vary, depending on market conditions and other factors.

Page nine, leasing expenses were \$17.9 million for the second quarter 2012, down slightly from \$18.7 million in second quarter 2011. Leasing costs relating to defaults and restructuring increased by \$4.4 million, while lessor maintenance contributions declined by \$6.3 million.

On page 10, SG&A expenses were \$21.7 million in the second quarter 2012, down significantly from the same period in 2011. Included in the SG&A amount in second quarter 2011 there was a one-time charge of \$24.5 million relating to the buyout of the Genesis portfolio servicing rights.

Page 11, the financial impact from defaults and restructuring in the second quarter 2012 was a pretax loss of \$12.6 million. This loss was driven by costs relating to defaults and restructuring which occurred late in 2011 and early in 2012.

Page 12, our blended tax rate for the second quarter 2012 was a charge of 8%, and the blended tax rate for the full year 2012 is expected to be similar.



Page 13, AerCap's total assets, as of second quarter 2012, are \$9.3 billion. The decrease in assets from 2011 was driven by the sale of our Aero Turbine business, and the sale of a 50% interest in a joint venture.

The number of aircraft in our portfolio is 347 and it includes the American Airlines purchase/lease-back transactions, where the remaining aircraft are subject to confirmation on an aircraft-by-aircraft basis.

Page 14, for the first half of 2012, we completed \$518 million of purchases, which consist of 10 aircraft. For full-year 2012 we expect to make \$1.1 billion of purchases, consisting of 20 aircraft. These amounts include aircraft relating to the purchase/lease-back transaction with American Airlines.

Page 15, the utilization was 97.6% for the first half of 2012, and the yield generated by our aircraft lease portfolio was 12.3%.

The average term of new leases for new aircraft entered into during the first half of 2012, inclusive of letters of intent, was 138 months. The average term entered into during the first -- second quarter of 2012 for new leases on our existing portfolio was 64 months.

Page 16 -- AerCap's unrestricted cash balance at the end of the second quarter 2012 was \$474 million, and our total cash balance, including restricted cash, was \$765 million. Operating cash flows were \$158 million for the second quarter 2012.

Page 17, at the end of second quarter 2012, AerCap's debt balance was \$6.2 billion and our debt-to-equity ratio decreased further to 2.7 to 1. Our book equity is \$2.3 billion and the average cost of our debt was 4%.

Page 18, with regard to our full-year 2012 financial outlook, the previous guidance we provided is essentially in line and remains unchanged.

So, with that, I'd like to turn it over to the operator to begin the Q&A.

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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. (Operator Instructions). Thank you. And the first question comes from John Godyn from Morgan Stanley. Please go ahead with your question.

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### John Godyn - Morgan Stanley - Analyst

Thanks for taking my question. I was hoping I could follow up on the comments about sort of solid demand and firming lease rates for the newest technology aircraft. You gave some sort of good big picture trends that are driving solid demand for those aircraft types, but if you could just sort of elaborate on what's changing on the margin, just recently in the environment, I think it would be helpful.

I think some investors sort of look at the economy and worry that most of the signs on the margin have gotten a little bit worse in the last month or two, but it sounds like you're seeing firming lease rates. So, if you could just give us some more color on what's happening on the margin, I think it would be helpful.

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### Aengus Kelly - AerCap Holdings N.V. - CEO

Certainly, John. What we're referring to there is that there has been, over the course of the last four earnings calls we've conducted, queries about, particularly, the lease rate on 319s and 320-family airplanes.



What we're seeing -- and, at that time, as interest rates were falling, we saw lease rates fall with them. What we're seeing at the moment is that demand for those aircraft, the lease rates, are firming. We don't see them declining further from where they are. We were able to rapidly redeploy any assets that are 320s and -- either ones that are coming off lease on a scheduled basis, or ones that were unscheduled, such as the Kingfisher aircraft. All of those aircraft were placed in the first half of the year.

And so, that's what we're referring to is that the market is there to place these aircraft. The lease rates themselves we don't see further deterioration in the lease rates on the 320 family.

On the 330 side, that's been the most robust aircraft in the world, to be quite frank, the 330-300. That's the one aircraft of the three major families where we would actually say that the net margin on those airplanes is actually higher than -- it actually has been increasing over the last couple of years. The 737-800 has been more or less stable.

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**John Godyn** - *Morgan Stanley - Analyst*

For the A320 family, just to follow up on your comment, do you get the sense that the overall market demand has improved on the margin? Or has that been more sort of almost price stimulation because of the fall in values in lease rates?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, it's a combination of factors. There's, obviously, price stimulation in the fact that lease rates have fallen, but importantly, also, you've got to remember, look at the worldwide portfolio. 20% of the fleet is over 20 years of age. They're deeply inefficient aircraft.

So, there's always a price where a fuel-efficient airplane can get placed at the expense of a fuel-inefficient aircraft. So, that's why, if you have a portfolio that's focused on modern technology, fuel-efficient aircraft, there'll always be a price that you'll move these airplanes at.

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**John Godyn** - *Morgan Stanley - Analyst*

Okay, that's helpful. And if I could just end with a quick nit, on buybacks, my understanding is that you guys do buybacks a little differently than I think the typical US investor thinks about it, where in the US there is a certain amount of flexibility, once you authorize the buyback, with how to execute it in terms of the timing.

Do you guys sort of issue a price at which you buy back shares and then sort of a third party buys back under that price? If you could just give us some clarity there, I think it would be helpful.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, certainly, John. I mean, we don't disclose to the market the ceiling at which we're willing to buy back shares. What we do is, we're in the market and we buy back the shares on a daily basis, no different than any other company, and then, if a large shareholder wants to do a block trade, like we did with Cerberus and if the trade makes sense for AerCap, we'll go ahead and do it.

So, I don't believe there's anything really different there.

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**John Godyn** - *Morgan Stanley - Analyst*

Okay. That's helpful. Thanks.



**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Not at all.

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**Operator**

Thank you and the next question comes from Michael Linenberg from Deutsche Bank. Please go ahead with your question.

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**Michael Linenberg** - *Deutsche Bank - Analyst*

Yes, hey, good morning, everyone, and good afternoon, actually.

I want to go back to the slide deck on page 11 where we have the impact from defaults and restructuring and when you look at sort of the rate of change and the trend there, things have definitely gotten worse and I just -- I want to know how much of that, though, is timing? How much of that, when we look at, maybe, the second quarter, how much of that relates to aircraft that you've already dealt with, and so, as we think into the second half of 2012, maybe that number has already peaked and we should, then, be on the back side of that hill?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes, Mike, let me explain, again, the accounting, the way it works for the US GAAP. Again, when we hold security -- like security deposits or maintenance reserves, when there is a default and the leases are terminated, at that point the requirement is to record that as revenue. So, all the cash that we're holding effectively becomes our and is immediately recorded as revenue.

The expenses, then, to transition the aircraft and to do the work required to put it back out on lease happens, obviously, in the months thereafter and those expenses are recorded when they are incurred.

So, effectively, the expenses you're seeing here in the second quarter and effectively the first half are from the defaults that actually happened toward the end of 2011 and early 2012. So, there is a mismatch, as you can see, obviously, with regard to timing and, yes, these default-related leasing expenses should trail off once the aircraft are finished and redeployed.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

And, Mike, this was specifically around the Kingfisher aircraft that we repossessed last year from Kingfisher Airlines. And so when we repossessed, the deposits we had were released to the P&L and then, as we put them through the shop, then the costs get incurred.

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**Michael Linenberg** - *Deutsche Bank - Analyst*

Perfect. And then my second question -- and this is a little bit bigger picture here to Gus -- we look at where sort of global GDP has been heading and not just big countries, but also -- or developed countries, we also look at the developing markets and it looks like, on the margin, that things may have worsened over the last quarter or two, on one hand.

On the other hand, when you look at the aircraft that are scheduled to be delivered, you do a run, say, by an Ascend and you look out over the next year or two or three, there's a pretty meaningful ramp-up. And, Gus, you've been through these cycles before. Where do things sort of hit? Where do we get to that potential breaking point? Because it does seem like there's a lot of airplanes that are on order.

And I appreciate your point that you made about 20% of the global fleet just not being the appropriate aircraft for -- given where fuel prices are today. So, I mean, are we going to run into a wall in the next year or so, or how do we get through this?



**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, I think it's important to look at the industry as a whole, Mike. You've got to remember that we only have two suppliers in this industry. That's it, in effect, a duopoly between Boeing and Airbus. And if you look at their behavior in the past, that is a very good guide to their behavior in the future.

Boeing and Airbus are in the business of selling airplanes, so, of course, they're going to take as many orders as they can get their hands on, because it brings a customer into the fold. Now, what you've seen in the past, over the last three decades, is that we've gone through periods of potential over-ordering or over-supply, but Boeing and Airbus never, ever, force an airline into bankruptcy by taking airplanes. They've never, ever done it.

They will always work with an airline. If an airline says, look, I can only take 10 out of the 12 airplanes I was supposed to take, then they will work with that, and that's been their practice in the past, because you have the duopoly.

This is not like shipping where you have numerous manufacturers who are just trying to cover variable costs associated with production. Boeing and Airbus have always acted rationally in the end. Of course, they're going to push as many aircraft as they can into the market, but if the market cannot take it, Boeing and Airbus have never forced product into a market that it cannot absorb.

So, in the end, Boeing and Airbus and the market, it's always been the same in the past. They'll reach a balance. Boeing and Airbus, of course, want to put as many airplanes as they can into the market. That would be what they will try to do.

So, we have seen that time and again, Mike. And also, then, just to reiterate the point about just the quantum of aircraft that need to be replaced, there are still a lot of airlines in the United States where if airlines in other parts of the world were to say, look, we can't take, maybe, the next 20 or 30 737s or A320s, I'm quite sure there would be homes for them here in the United States in the very large airlines, as well. And it'll be a question of pricing for those airlines, too, but when you look at the amount of ordering in the US relative to the scale of the fleet here, it isn't that big and this is the oldest fleet in the world, operating in the United States, we're talking about, too.

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**Michael Linenberg** - *Deutsche Bank - Analyst*

Okay. Very good. Thanks, Gus.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

You're welcome, Mike.

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**Operator**

Thank you. And the next question comes from Gary Liebowitz from Wells Fargo Securities. Please go ahead with your question.

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**Gary Liebowitz** - *Wells Fargo Securities - Analyst*

Thanks, operator, and good afternoon.

Keith, you mentioned that you're comfortable with the prior guidance, which included 2% to 5% basic lease rent growth. Are you still comfortable with that, or, perhaps, more towards the low end, because it would seem to require a pretty significant ramp-up in the second half?





**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes, you're correct. It would be toward the lower end of that range, but that range still would work, the lower end.

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**Gary Liebowitz** - *Wells Fargo Securities - Analyst*

Okay and this, I presume, would include the benefit of fully redeploying the assets that were under-utilized in the first half?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Correct. Correct.

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**Gary Liebowitz** - *Wells Fargo Securities - Analyst*

Also, could you quantify what the losses were on the A320 and 757s and what that might suggest for future impairment tests?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

There was about a \$2 million gain on the A330, neutral on the A320, and a little over a \$1 million loss on the 757.

But, again, when you look at the impairment tests, the first thing you need to look at is look at the current market value of the assets compared to our book values and, again, as you know, every six months we do provide that information on a portfolio basis and you -- as you see, consistently, we still have roughly \$1 billion between our cost basis and the current market value.

So, that, in itself, would indicate that from an impairment point of view, there's limited amount of impairment. And, again, if you recall, when an aircraft hits 15 years of age and we're still holding the aircraft, we come up with a specialized depreciation schedule to ensure that we avoid whatever potential impairments there may be.

But, of course, there's always going to be an aircraft or two that might actually slip the test, but it will be limited in our portfolio.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

And just to mention, Gary, both the 75 and the A320 were both early 1990-build airplanes. This is not a new A320.

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**Gary Liebowitz** - *Wells Fargo Securities - Analyst*

Okay, great. And just one last one, the SkyFunding facility, I think it was for 12 aircraft and I think you're there now. Is there going to be a sequel?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

We're working on another transaction, yes, to support the purchases.

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**Gary Liebowitz** - *Wells Fargo Securities - Analyst*

And how do those terms look, compared to the SkyFunding?



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**Keith Helming** - *AerCap Holdings N.V. - CFO*

We'll provide that information when we close the transaction.

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**Gary Liebowitz** - *Wells Fargo Securities - Analyst*

Okay, thank you.

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**Operator**

Thank you. The next question comes from Arren Cyganovich from Evercore. Please go ahead with your question.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

Thanks. The default and restructuring impact, I guess, on the quarter, do you expect that this was a little bit elevated this quarter and that you should have an improvement in your basic lease rates going forward? Or are some of these restructuring a little bit longer-tailed in actually reducing some of the rental revenues that you have from your base income?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes, it will improve. First of all, the leasing-related expenses will decrease and then the revenue side will improve when all of the aircraft are fully deployed. So, yes, you're seeing kind of a negative quarter from a timing point of view.

Again, as you may recall, some of the earlier quarters of 2012 and the latter quarters of 2011 we had a significant amount of positive income being generated as a result of the defaults, again because of the way the accounting works.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

Okay. And are you able to give any granularity on the -- I think you have 10 aircraft committed for the second half of the year, as to what will be falling into the third and fourth quarter?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

It's pretty evenly distributed throughout the year, the six-month period.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

Okay. And then the -- lastly, on the Singapore A330s -- I'm sorry if I missed this -- but did you provide when the delivery of those aircraft is expected to be?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

They deliver -- they start delivering next year and then the final one is in early 2015.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

Okay, thank you.

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**Operator**

Thank you. The next question comes from David Fintzen from Barclays. Please go ahead with your question.

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**David Fintzen** - *Barclays - Analyst*

Hey, good afternoon, everyone. Just a quick one --

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Hey, David.

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**David Fintzen** - *Barclays - Analyst*

Hi. A quick one on the 320 family. I think of the 150 or so in the portfolio, can you kind of walk us through how much placement risk you have on those, on the existing fleet, over the next, say, 12 to 18 months.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, the total fleet, across the portfolio, about 11% of the fleet rolls over in 2013. Half of that is already placed. I think the best evidence I can give you of the desirability of the 320 is the fact that in the winter of last year and early this year I took airplanes back out of a repossession in India from Kingfisher Airlines. As you hear me say on previous calls, I had them all placed within four weeks.

The point is that modern technology fuel equipment like the 320, you can move them. That's where it is. As we discussed earlier on in the call, there may be an element of price stimulation in it, but at the end of the day, modern technology fuel equipment like the A320 is in demand, the 737, the A330.

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**David Fintzen** - *Barclays - Analyst*

Okay. Okay, I appreciate that. And just kind of, maybe, a capital allocation question, and you obviously raised the buyback, you also raised the aircraft acquisition goal a little bit. I mean, and then, how should we think about the balance of those two things as you look out over the next 12 to 18 months? Is the current balance sort of indicative of what you think the future will look like, or should we expect some inflection?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, it could be opportunistic in nature. I mean, if you look at us, how we operate historically, you've seen our buying behavior on the aircraft side. We've tended to be aggressive buyers when there's very few buyers in the market. Most recently, that was with American Airlines. Previously, in 2009, we doubled the size of the portfolio in that year.

Now, we have a low debt-to-equity ratio. We don't have a burden of a massive pre-delivery payment obligation or a huge order book associated with it that on play.

So, the Company is very well positioned and capitalized to take advantage of opportunities on the asset side, and we would move very quickly in large scale if we saw the right transaction. That being said, if we don't find the right transaction, we won't buy anything.

When all the new guys came into the market between early 2010 and mid-2011, we didn't buy anything. We were big sellers.

And so, it will depend on the market dynamic and what's available. But we are consistent. Every week we are looking at different transactions. We are bidding on different transactions. They don't meet our return hurdle, because our return hurdle is that aircraft acquisition has to be accretive to our shareholders, not dilutive.

Now if we see an opportunity on the share buyback side, which clearly we saw earlier on in the year, to increase the size of the share buyback program, we'll do that, as well, if that's a better use of our money.

So, we don't have a preference, particularly, one way or the other. We're here for the benefit of our shareholders and whatever transaction makes the most sense for the Company is the one we're going to do.

The most important point, though, is that the Company is in a very strong financial position at the moment.

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**David Fintzen** - *Barclays - Analyst*

Okay. I appreciate that. Thanks for the color.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

You're welcome.

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**Operator**

Thank you. And the next question comes from Scott Valentin from FBR Capital Markets. Please go ahead with your question.

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**Scott Valentin** - *FBR Capital Markets - Analyst*

Good afternoon and thanks for taking my question. Just with regard to defaults, I know there's a timing issue between the maintenance rents and the default costs, but can you give us an estimate of what the total loss per aircraft was, roughly?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

It's pretty flat, actually, overall.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes.



**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

What you just saw was a timing issue. I mean, there was approximately \$0.5 million an airplane, which is consistent with our normal cost to deploy an airplane, so as we've always said to you in the past, default cost, look back to 2008-2009, the worst year that this industry ever went through, the default cost to this Company was at its peak. We had 3% of lease revenue was default cost. That was the worst ever.

Default costs are not what gets these kind of companies in trouble. It's a lack of discipline on the liability side, or getting over your skis on the asset side and over-committing that gets you in trouble.

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**Scott Valentin** - *FBR Capital Markets - Analyst*

Okay, that's helpful. Thanks.

And then, just with regard to the margin from first quarter to second quarter, it was down a little bit. I know there's a footnote. I guess there's 40 basis points of amortization expense. Wasn't sure if that's through both quarters or impacted one quarter more than the other. And just kind of looking forward, what you expect out of the margin?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

The margin is slightly down as a result of the fact that there were some of the aircraft that were not yet out on lease. So, that margin will improve once those aircraft are fully deployed. So, I think that the dip you saw this past quarter was temporary.

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**Scott Valentin** - *FBR Capital Markets - Analyst*

Okay. And then the -- just looking forward, I mean, the change in financing, international financing terms. Obviously, the cost is going up. There seems to be some speculation that there'll be more sale/lease-back opportunities going into, I guess, 2013 as airlines don't want to face those higher costs. Is that something you guys foresee and maybe preparing for that in terms of holding more liquidity and holding more capital?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

We certainly are. We're looking at sale/lease-back transactions all the time at the moment. It's one of the reasons, as you know, why we didn't go for big orders. We felt that the airlines had an awful lot on their own order books. We felt that there would be a requirement for financing.

But you have to stay disciplined. There's a sale/lease-back you could do every week, if you want. You must maintain your discipline and your patience. You're going to get your opportunity to grow the business.

And you saw that in the last quarter. We moved with the five A330s to Singapore and we also had an opportunity, of course, with the buyback program. And last year we did it with American.

So, on the asset side we've done two acquisitions over the course of the last year, but we would have bid on maybe 14, 15 deals, at minimum, and probably seen about 30 deals. Now, as we go into next year, I think that your comment is accurate that there'll be more opportunity on the sale/lease-back side with the airlines, particularly now the fact that a lot of the new money that came into the market has been deployed and the level of deliveries is ramping up.

So, I do think that we'll see great opportunity all right and the Company is not burdened by a big sale -- or a big order book that would have been placed in 2010 or early 2011.



**Scott Valentin** - *FBR Capital Markets - Analyst*

Okay, thank you. That was very helpful.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

You're welcome.

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**Operator**

Thank you. And the next question comes from Ryan Zacharia from JAM. Please go ahead with your question.

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**Ryan Zacharia** - *Jacobs Asset Management - Analyst*

-- my question. Can you guys disclose the buyback activity between July 16th, when you increased the authorization, and now?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes, we actually have not been buying shares. We had to wait until we canceled the treasury shares that we had, that we were holding, and we did that early August. So, we will begin buying shortly.

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**Ryan Zacharia** - *Jacobs Asset Management - Analyst*

Okay. And just going back to the basic lease/rent growth estimate around that 2%. So, that includes all of the default and restructuring impact?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes, it does.

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**Ryan Zacharia** - *Jacobs Asset Management - Analyst*

And is that relative to some kind of adjusted figure from last year or is it just, basically, the difference from 2011 growing at 2%.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes, it's not on a -- there's no adjustments made.

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**Ryan Zacharia** - *Jacobs Asset Management - Analyst*

Okay. Thanks.

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**Operator**

Thank you. The next question comes from Glenn Engel from Bank of America. Please go ahead with your question.

**Glenn Engel** - BofA Merrill Lynch - Analyst

Good morning. Two questions. One, there was some news the other day about the Indian government not allowing somebody to take a plane, repossess a plane from Kingfisher. I know that doesn't affect you, really, any more, but just curious, in general, for countries as you're trying to take -- lessors are trying to take planes back, has there been any greater pushback in any -- and harder to get aircraft than it would have been before?

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

No, Glenn. When it comes to repossessing, speed is critical. It's the speed of your response to a problem, not the ultimate magnitude that matters. It's always the same. If you don't move quickly, either the government does something or the airport authority will put liens on the airplane, or some other company or fuel suppliers, catering guys, whoever it is, they'll put liens on an airplane. The longer an airplane stays around in a bankrupt airline, the more liens will attach to the aircraft and, therefore, the more difficult it is to get the airplane out. And difficult means costly.

It's a question of time. All those aircraft will come out of Kingfisher. There's only ever been one aircraft that could not be repossessed that political risk insurance was called up, and that was in the former Yugoslavia.

So, the big leasing companies, they'll get them out. The key, though, is the question of cost. If you were quick on the -- if you were quick, you probably got it out relatively, without too much pain at all, as you saw from our numbers earlier on. On a net basis, it wasn't that much. But if you leave them in there for a long time, then things tend to go wrong.

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**Glenn Engel** - BofA Merrill Lynch - Analyst

Second question is on, as you purchase new planes, the equity portion that you have to put down versus the debt portion, is that changing much? Has that stabilized? And where is that, roughly, now.

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

Well, I think this is why we believe the transaction we did in the unsecured market is a landmark deal for the leasing company, for the leasing industry, because unlike all of our competitors, they have to use that unsecured money, effectively, as senior debt, because the unsecured market says to them, okay, we'll give you a billion dollars, but you have to have \$1.3 billion or \$1.4 billion of unencumbered assets. Therefore, all it is relatively expensive secured debt, whereas for AerCap, we don't have that.

So, we can go out and we can say, well, we're going to buy our \$1.5 billion, \$1.3 billion of airplanes, or whatever the number is, and we can raise \$1 billion of senior debt around the world, be it in Asia, Europe, the United States, wherever it is, and then we can use the unsecured market to finance the equity check.

So, that's a huge difference between the ability of AerCap to raise capital and the rest.

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**Glenn Engel** - BofA Merrill Lynch - Analyst

And can you quantify that benefit in terms of how much they have to raise and how much you have to raise?

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

Well, it's all public. If you look at the filings of my competitors, you'll see exactly what they do and you look at our filing and we raised \$300 million.

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**Glenn Engel** - *BofA Merrill Lynch - Analyst*

I'm talking about the equity portion of the deal, in terms of how -- is that getting to be -- are you having to put -- are buyers having to put down more equity now and that's getting harder to get? Or has the amount of money a buyer has to put down for equity not really changed very much?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

The point I was making is that our unsecured debt is the equity in the deal. That's the difference about AerCap. The others don't have that. That's the huge difference.

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**Glenn Engel** - *BofA Merrill Lynch - Analyst*

Correct and so is that -- that they have to find -- that you're able to use that money for the 25%, whereas before you only had to use that money for 10%, or how big of an advantage is that becoming now?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, for the most part, in terms of advance levels, I mean, it hasn't really --

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

No, I don't think it's moved that much, especially on the newer equipment, on the most popular equipment.

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**Glenn Engel** - *BofA Merrill Lynch - Analyst*

Thank you very much.

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**Operator**

Thank you. The next question comes from Helane Becker from Dahlman Rose. Please go ahead with your question.

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**Helane Becker** - *Dahlman Rose & Co. - Analyst*

Thank you very much. Hi, guys. Just two questions.

One, are you noticing that your customers are asking for shorter lease terms when your second leases come up? Or are they still kind of long-term leases? I see the average is 138 months, but what's the customer pushback, if any?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, you can see the two levels, obviously, there Helane. Obviously, the 138 months relates to sale/lease-back. So, what we're -- because we're doing sale/lease-backs on a voluntary basis. We enter into the transaction if we want to. If we don't want to, then we don't do it. So, the sale/lease-backs we enter into are, typically, very long term.





Now, if you had a big order book and you were going to a lessee, you may get pushback and say, well, I'm not willing to go for 10, 12 years. Maybe I'll do a 10-year deal with a sixth-year break option. Things like that may happen if you had a very big order book that you had to move.

Now, if you look, then, at the roll of the portfolio, you see there that the average is 64 months. So, when we have an airplane coming back and then it goes on lease again, you saw the average for the first half of 2012 at 64 months. So, that's five years. So, that's pretty much consistent, to tell you the truth, with what you've seen over the course of the last several years on the release level.

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**Helane Becker** - *Dahlman Rose & Co. - Analyst*

Okay. And then, are you having any -- are there any other airlines that you need to be or you feel you need to be worried about in Europe or elsewhere? Are you comfortable with the placements of the fleet now?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, as I've said to you earlier this call and in prior calls, defaults are part and parcel of the business. That's going to happen, but what we see at the moment, actually, is that receivables -- at June 30, our receivables position over 30 days, i.e., one month of rental missed, was at an all-time low. We were less than \$0.5 million.

Now, it is the summer and we do believe that we've a very good platform when it comes to getting paid and we get paid pretty quickly, but that is the best indicator I could give you of where we stand at the moment. I have no doubt that as we go through the year we'll see another default here and there, but I don't see it being any different to what we've seen in prior years.

The worst year we ever had for defaults was 2008, particularly during the fourth quarter of that year. We don't see anything out there at the moment that would indicate that we're running into another 2008/2009.

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**Helane Becker** - *Dahlman Rose & Co. - Analyst*

Okay, great. Well, thanks very much for your help. We'll see you soon.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

You're very welcome. Thank you.

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**Operator**

(Operator Instructions). And the next question comes from Gary Liebowitz from Wells Fargo Securities. Please go ahead with your question.

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**Gary Liebowitz** - *Wells Fargo Securities - Analyst*

Yes, thanks. Gus, a quick one. Has there been any movement on the Transbrasil litigation matter? Do you expect that to get settled this year?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

That's something we can't really comment on, Gary. That's a litigation that's ongoing.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

Okay.

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

We don't really comment on litigation.

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**Operator**

We do not appear to have any further questions. Please continue with any other points you wish to raise.

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

Thank you. So, in conclusion, AerCap remains very disciplined when it comes to deploying capital. We continue to produce industry-leading return, and our robust liquidity profile, combined with the investment-grade rating, positions us to take advantage of market opportunities, be it in the form of acquiring aircraft, or repurchasing our own shares.

Now, we never lose sight of our investors, for whom we are running the Company and we look forward to meeting as many of you as possible at our Investor and Analyst Day in New York on Wednesday, September 12th, details of which can be found in our website.

Apart from Keith and I, other members of the management team will also be present and we will review AerCap's strategy and growth plans for 2012 and beyond. We do hope you can join us there.

Thank you, again, for joining us on the call.

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**Keith Helming** - AerCap Holdings N.V. - CFO

Thanks, everyone.

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

Goodbye.

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**Operator**

This concludes today's presentation. Thank you for your participation and you may now disconnect.

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